UNITED STATES SENATE
FINANCE COMMITTEE
TESTIMONY OF JON E. JENSON
CHAIRMAN, CONSUMING INDUSTRIES TRADE ACTION COALITION
("CITAC")
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Mr. Chairman, Senators.

I am Jon Jenson, Chairman of the Consuming Industries Trade Action Coalition ("CITAC") and President Emeritus of the Precision Metalforming Association. With me today are CITAC's Counsel, Lewis Leibowitz, and Laura Baughman, co-author of the CITAC study of the effects of tariff restrictions on downstream industries in the U.S.

We appreciate the opportunity to testify this afternoon on behalf of CITAC. CITAC is a coalition of companies that rely on open channels of trade to be competitive in their U.S. manufacturing, transportation, construction, retailing, energy production and other activities. While I have been asked to comment specifically on the issues surrounding requested aid to the U.S. steel industry, CITAC members care equally about open markets for other inputs, as well as for export opportunities.

Joining with CITAC in the spirit of this testimony is the Free Trade in Steel Coalition representing U.S. Ports and related maritime and other transportation industries. They are concerned that the imposition of trade restrictions would be detrimental to their economic welfare since more than 38,000 jobs in the U.S. are dependent on the handling of fairly traded steel imports.

They are also concerned about the emerging school of thought that trade restrictions on steel imports will not matter because increased activity resulting from the possible passage and implementation of Trade Promotion Authority would fill the void. This is simply not the case. Even if TPA were passed by the Congress and signed into law by the President this year, it would take at least three to five years to negotiate, ratify and implement trade agreements under this act.

Also, we have had expressions of support for CITAC's position from minority business and civil rights leaders, who are concerned about discussion of allocating scarce public funds for health care to a few steel workers instead of America's uninsured poor and minority communities. These leaders emphasize that the $12 billion for the steel bailout would provide medical care to every one of the 11 million children in the U.S. without care.

Steel is certainly at a crossroads. Calls for the President to declare tariffs of up to 50 percent on steel imports, which are vital to many American manufacturers, frighten us. Pleas for the government to bail out companies from excessive health care obligations for retired and active workers threaten to set a precedent for government bailouts of other industries in economic difficulty. Calls for consolidation in the steel industry in combinations with import restraints are raising antitrust concerns. There are further calls for global talks to reduce steel capacity and eliminate government-induced market distortions. These are questions that warrant serious debate and analysis. We at CITAC have tried to do our part. We have commissioned studies that analyze the economic impact of trade restrictions on America's steel-consuming industries, a sector of the economy that, until we focused attention on it, received entirely too little consideration in public policy debates.

Steel-using manufacturers and U.S. exporters would be hurt by steel import restrictions. This merits full consideration, especially now. The economy is in a recession. Even during this downturn, steel users must compete with efficient global manufacturers of all types of consumer and industrial installations, machines and conveyances -- everything from earth movers to nuts and bolts. Forcing U.S. manufacturers to pay considerably more for steel inputs than their foreign competitors will deal U.S. manufacturers a triple whammy: (1) increased raw material costs; (2) threatened access to steel products not produced in the U.S.; and (3) increased competition from abroad for the products they make. It will simply send our business offshore, devastating U.S. steel-using businesses, most of them small businesses. U.S. exporters would be the subject of retaliatory restrictions, and this would likely occur promptly, not after three years.

We acknowledge that certain integrated U.S. steel producers are in deep trouble. The 1998 steel import surge in the major flat-rolled carbon steel market was a serious blow to steel producers. But steel prices have nose-dived all over the world, not just in the United States. Certain U.S. integrated producers have not been able to cope with the new realities of the global market place.

The Section 201 case took place against this backdrop. CITAC participated fully in the International Trade Commission proceedings on steel and at the Trade Policy Staff Committee. As you know, the Commission found injury or continued the investigation by a tie vote in 16 of 33 product groupings covering 74 percent of steel imports. In December, the Commissioners transmitted their findings and recommendations for relief to the President.

The President now must decide what to do. CITAC strongly opposes restrictions on steel imports. I would like to tell you why we think import restraints are the wrong answer for the country.

1. Import restraints do not address the most serious problem facing certain integrated steel producers

Imports are largely the result, not the cause, of the steel industry's problems. High and relatively inflexible costs – including costs for raw materials, energy, "legacy costs" and labor – are the root cause of the integrateds' inability to compete.

There are two steel industries in this country: integrated mills (U.S. Steel, Bethlehem, Inland, National, the former LTV and several smaller companies); and minimills, such as

Nucor and Steel Dynamics. The former have reported massive losses over the last three years, while the latter are profitable (of course, during the current recession, profits are down). In 2000, Nucor reported record sales and profits (they were even profitable in the recession year of 2001, while LTV, for example, was sliding into deeper economic difficulties. According to LTV, in 2000 LTV lost nearly $40 on every ton of steel it shipped, while Nucor made nearly $40 profit on every ton it shipped. It's an apples to apples comparison – the same product, the same market, and the same time frame. The difference in performance is the cost of manufacture.

Both segments of the steel industry have complained about imports. Extensive use of antidumping and countervailing duty cases in the U.S. has caused imports to decline dramatically.

With imports down, one would expect the fortunes of the integrated companies to reverse. But imports have have caused the financial downfall of integrated steel companies, so declining imports have not saved them. If we restrict imports, we will not provide any lasting relief to the integrated mills because we won't be solving their real problem.

2. The U.S. market needs imports

Our CITAC study and other recent studies indicate that imported steel is needed in the U.S. market for two reasons. First, the total production of steel in the United States, even at peak capacity, is not enough to satisfy domestic demand. There is a shortfall of 25 to 35 million tons every year (including semifinished steel) that domestic steel suppliers cannot provide.

Second, there are many steel products that are not made in the United States. In the Section 201 case, more than 1000 product exclusion requests have been filed with the Administration. We believe this is only the tip of a very large iceberg. American steel using manufacturers need imported steel meeting specifications that U.S. producers cannot or do not supply. The Section 201 record contains numerous examples of this problem, but they are only examples.

In short, domestic production of steel is not completely interchangeable with imports and therefore cannot completely displace imports. U.S. steel using manufacturers do not purchase imported steel for convenience; imports are necessary in many instances to allow our manufacturers to compete globally. Globally competitive price is a part of it—but in many cases it is the consistency of quality, metallurgical properties, and formability, chemistry or other factors that dictate the use of imported steel. It would be a serious mistake to base any policy decision on the assumption that U.S. steel consuming manufacturers can do without imports.

3. Import Restrictions would jeopardize tens of thousands of U.S. jobs

We are not trying to scare people when we report in our study that domestic steel-using manufacturers would be injured to a far greater degree than steel producers would be helped. We are simply providing the facts. Protectionism is a bad idea. It usually does not work and it will not work here.

Every State in the Union would lose more jobs than trade restrictions would save—even steel-intensive states like Indiana and West Virginia.

Steel-consuming industries have been among the very few job-creating industries in the U.S. manufacturing sector, even in recent years. Between 1997 and 2000, steel-consuming sectors added 848,000 jobs, compared to losses in the steel sector of 10,00 over the same period. It makes little sense to hit hard one of the few manufacturing sectors of the economy that is creating jobs to bail out an industry that is going through a much-needed adjustment process.

We have carefully examined comments critical of our study and have consulted many experts. We stand by the results of the study. The study employs the appropriate econometric model, and uses realistic assumptions. The database for the GTAP model is maintained by a consortium including the ITC, the Department of Agriculture, the World Bank, the WTO, the OECD and others. The resulting study is a reasonable estimate of the jobs impact of tariffs on steel. The purported critique commissioned by Nucor is based on one person's unsupported assertions that are contradicted by sound economics and economic literature. Some of the conclusions accompanying these assertions are emphatically not consistent with reality.

For obvious reasons, we cannot accept the idea of a tax on steel sales, whether in the form of a tariff on imported steel or an excise tax on all steel. Both taxes would increase costs for America's steel using manufacturers and benefit foreign steel users.

Finally, other parts of our economy would probably suffer also. Calls for compensation or retaliation against U.S. exports would come immediately from trading partners injured by U.S. unilateral restrictions. Joint international efforts to limit capacity would come to an end. There is much to lose.

4. Steel policy should focus on competitiveness and protection of workers, not companies

Based on our views of the causes of the integrated producers' problems and the consequences of trade restrictions, we reject the notion that trade restrictions are the answer. Although they would perhaps help some companies postpone extinction by temporarily reducing their losses, such restrictions would do far more harm than good.

Having said what we reject, we offer suggestions for the development of a strong and vigorously competitive domestic steel industry. First, we favor the consolidation of certain integrated producers, either with minimills or among themselves. One or two companies would be more competitive in the global marketplace than seven or eight.

While this consolidation would lessen competition, the long-term benefit to consumers would seem to be greater than relying on small, uncompetitive companies.

Second, if "legacy costs" are to be addressed, we favor coupling relief for retired workers with capacity closure, such that mills would not come back in another form after having benefited from government subsidies.

Third, environmental issues must be addressed. Clean-up costs are prohibitive for some companies and they keep open capacity that should be shut down. We would favor some government assistance, properly limited, for plant closures to accomplish this.

Fourth, steel producers must learn to compete globally. They lag far behind their foreign counterparts in thinking and acting globally. U.S. Steel has purchased a mill in Slovakia, yet other mills claim that foreign markets are closed. The facts are that in 2000, 280 million tons of steel crossed international boundaries before being consumed. That is more than one-fourth of all global production. Global competition is a reality in steel and steel producers must recognize that.

Conclusions

The upcoming steel policy decision looms as a critical moment for America's manufacturers. Imposition of huge tariffs will signal America's desire to withdraw from the world economy. This desire is not only wrong—it is impossible. We could not withdraw even if we wanted to. The only way for steel producers to be competitive is to compete.

We reject proposals that tax steel using manufacturers in the U.S. and their 12.8 million workers, either through import tariffs or excise taxes. It is abundantly clear that import restrictions would cause much more harm than good and will not address the real problems of certain integrated steel producers.

We support proposals that would take extraordinary action—to assist retired workers, to permit the orderly closure of inefficient steel making capacity and to clean up the environment.

Steel is an important industry. It is not the only industry, however, and the costs of "saving" the steel industry should not outweigh the benefits.

I thank the Committee for its attention. I would be pleased to respond to any questions you may have.